

PROJECT HEALTHY CHILDREN, INC.

FINANCIAL STATEMENTS

September 30, 2017 and 2016

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R.J. GOLD & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Project Healthy Children, Inc.

We were engaged to audit the accompanying financial statements of Project Healthy Children, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence about the existence and valuation of foreign cash, inventory and property and equipment because of the remote overseas location. The total amount of these accounts as presented in Project Healthy Children's statement of financial position as of September 30, 2017 is \$685,418, which represents 60 percent of net assets.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

R.J. Gold & Company, P.C.

Burlington, Massachusetts
August 15, 2018

PROJECT HEALTHY CHILDREN, INC.
 STATEMENTS OF FINANCIAL POSITION

 SEPTEMBER 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	\$ 473,975	\$ 597,289
Contributions receivable	-	69,002
Accounts receivable	-	11,262
Loans receivable - employees	2,400	6,260
Inventory	416,343	149,201
Employee cash advances	20,121	51,826
Other current assets	59,345	30,247
TOTAL CURRENT ASSETS	972,184	915,087
PROPERTY AND EQUIPMENT, net of accumulated depreciation	170,509	145,807
OTHER ASSETS		
Security deposits	1,892	3,000
TOTAL OTHER ASSETS	1,892	3,000
 TOTAL ASSETS	 \$ 1,144,585	 \$ 1,063,894

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 56,230	\$ 73,091
Recoverable grant	50,000	-
TOTAL CURRENT LIABILITIES	106,230	73,091
NET ASSETS		
Unrestricted	1,038,355	970,099
Temporarily restricted	-	20,704
TOTAL NET ASSETS	1,038,355	990,803
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,144,585	 \$ 1,063,894

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PROGRAM AND OTHER REVENUE:						
Contributions	\$ 1,286,503	\$ -	\$ 1,286,503	\$ 1,086,683	\$ 20,704	\$ 1,107,387
Other revenue	39,219	-	39,219	101,956	-	101,956
Net assets released from temporary restrictions	20,704	(20,704)	-	-	-	-
TOTAL PROGRAM AND OTHER REVENUE	1,346,426	(20,704)	1,325,722	1,188,639	20,704	1,209,343
EXPENSES:						
Program services						
Food fortification	1,209,710	-	1,209,710	680,181	-	680,181
Total program services	1,209,710	-	1,209,710	680,181	-	680,181
Support services						
General and administrative	34,209	-	34,209	70,248	-	70,248
Fundraising	34,251	-	34,251	9,249	-	9,249
Total support services	68,460	-	68,460	79,497	-	79,497
TOTAL EXPENSES	1,278,170	-	1,278,170	759,678	-	759,678
CHANGES IN NET ASSETS	68,256	(20,704)	47,552	428,961	20,704	449,665
NET ASSETS, BEGINNING OF YEAR	970,099	20,704	990,803	541,138	-	541,138
NET ASSETS, END OF YEAR	\$ 1,038,355	\$ -	\$ 1,038,355	\$ 970,099	\$ 20,704	\$ 990,803

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 47,552	\$ 449,665
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	73,284	35,269
(Increase) decrease in assets:		
Accounts receivable	11,262	(5,626)
Contributions receivable	69,002	75,580
Inventory	(267,142)	(120,372)
Other current assets	(29,098)	9,203
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(16,861)	53,016
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(112,001)</u>	<u>496,735</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(97,986)	(26,179)
Repayment of loans to employees	3,860	(3,066)
Employee cash advances	31,705	24,443
Security deposits	1,108	-
CASH USED BY INVESTING ACTIVITIES	<u>(61,313)</u>	<u>(4,802)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Recoverable grant	50,000	(100,000)
NET INCREASE (DECREASE) IN CASH	(123,314)	391,933
CASH AT BEGINNING OF YEAR	<u>597,289</u>	<u>205,356</u>
CASH AT END OF YEAR	<u>\$ 473,975</u>	<u>\$ 597,289</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2017

	Program Services		Support Services		Total 2017
	Food Fortification	General and Administrative	Fundraising	Support	
EXPENSES					
Payroll	\$ 168,103	\$ -	\$ -	\$ -	\$ 168,103
Payroll taxes	12,703	-	-	-	12,703
Overseas payroll and payroll taxes	183,371	-	-	-	183,371
Employee benefits	37,916	-	-	-	37,916
Materials - fortification devices	149,589	-	-	-	149,589
Cost of good sold - premix	55,919	-	-	-	55,919
Bad debt	-	4,742	-	4,742	4,742
Depreciation	73,284	-	-	-	73,284
Communications	10,849	306	9,405	9,711	20,560
Consultant and professional fees	187,767	10,767	18,201	28,968	216,735
Insurance	147	7,724	-	7,724	7,871
Office expense	20,989	1,500	-	1,500	22,489
Rent	60,352	5,760	-	5,760	66,112
Repairs and maintenance	5,160	-	-	-	5,160
Research and development	53,953	-	-	-	53,953
Supplies	9,811	-	-	-	9,811
Travel	107,993	-	6,645	6,645	114,638
Other	71,804	3,410	-	3,410	75,214
TOTAL EXPENSES	\$ 1,209,710	\$ 34,209	\$ 34,251	\$ 68,460	\$ 1,278,170

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2016

	Program Services		Support Services			Total 2016
	Food Fortification		General and Administrative	Fundraising	Total Support	
EXPENSES						
Payroll	\$ 164,337	\$ 3,536	\$ -	\$ -	\$ 3,536	\$ 167,873
Payroll taxes	12,948	-	-	-	-	12,948
Overseas payroll and payroll taxes	167,367	-	-	-	-	167,367
Employee benefits	62,083	-	-	-	-	62,083
Materials - fortification devices	44,213	-	-	-	-	44,213
Cost of good sold - premix	28,667	-	-	-	-	28,667
Depreciation	35,269	-	-	-	-	35,269
Communications	11,854	2,885	40	-	2,925	14,779
Consultant and professional fees	28,919	30,647	4,167	-	34,814	63,733
Insurance	50	6,779	-	-	6,779	6,829
Office supplies	3,490	1,451	-	-	1,451	4,941
Rent	12,849	14,091	-	-	14,091	26,940
Supplies	1,693	-	-	-	-	1,693
Travel	62,972	25	5,036	-	5,061	68,033
Other	43,470	10,834	6	-	10,840	54,310
TOTAL EXPENSES	\$ 680,181	\$ 70,248	\$ 9,249	\$ -	\$ 79,497	\$ 759,678

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Organization and Purpose

Project Healthy Children, Inc. (the "Organization") is a not-for-profit organization which was organized in April 2004 and provides technical and operational support and education on the benefits of food fortification. The Organization works with governments and private industry to establish fortification programs that improve the health of people around the world. The Organization currently conducts its work in Liberia, Malawi, Rwanda, Burundi, Tanzania, Zimbabwe and Sierra Leone.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

Inventory

Inventory is stated at the lower of cost or net realizable value and the Organization uses the specific identification method to determine cost.

Financial Statement Presentation

Information regarding the Organization's financial position and activities are reported according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - represent net assets that are not subject to statutory or donor-imposed stipulations.

Temporarily Restricted Net Assets - represent net assets subject to statutory or donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets - represents net assets subject to donor-imposed stipulations that must be maintained permanently. The Organization does not have any permanently restricted net assets.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from temporary restrictions.

Contributions

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants, bequests and endowments often require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since by accepting the gifts and their terms, it has made a commitment to fulfill the provisions of the gift.

Donated Assets and Support

Contributions in the form of property are recorded at fair market value on the date the property is received. There was no donated property as of September 30, 2017 and 2016.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Assets and Support-continued

Donated services, if any, are computed at the value that contributed services requiring specialized skills represent to the comparable compensation that would be paid if the Organization were charged for these services. There were no donated services that qualified for accounting recognition as of September 30, 2017 and 2016, respectively.

Accounts Receivable

In 2016, trade accounts receivable consists of amounts due from the millers in Tanzania. Premix inventory is delivered to them by Project Healthy Children, Inc. and upon sale, the millers pay back Project Healthy Children, Inc. In 2017, all premix was sold on a cash upon delivery basis.

Pledge Receivable

Pledge receivables are unconditional promises to give that are recognized as revenues in the period received and as assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledge receivables that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in contribution revenue.

Property and Equipment

All acquisitions of property and equipment in excess of \$3,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such asset. There were no impairment losses recognized for the years ended September 30, 2017 and 2016.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$19,768 and \$11,742 at September 30, 2017 and 2016, respectively, was accrued when incurred.

Research and Development Costs

The costs of research, development and product improvement are charged to expense as they are incurred. Total research and development costs included in program services was \$53,953 at September 30, 2017.

Newly Enacted Accounting Standard

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The new standard replaces the current three-category classification of net assets with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". The standard also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, the standard will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among programs and support functions. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

NOTE B – LOANS RECEIVABLE – EMPLOYEES

During the year ended September 30, 2014, an employee of the organization received a loan from the organization for \$7,500. The loan is due on demand and carries no interest rate. The balance of the loan receivable as of September 30, 2017 and 2016 is \$-0- and \$260, respectively.

During the year ended September 30, 2016, a different employee received a loan from the organization for \$6,000. The loan is due on demand and carries no interest rate. The balance of the loan receivable as of September 30, 2017 and 2016 is \$2,400 and \$6,000, respectively.

NOTE C – EMPLOYEE CASH ADVANCES

Employees who work in or travel to the rural countries of Liberia, Malawi, Rwanda, Burundi, Tanzania, Zimbabwe and Sierra Leone are given cash advances because often there are no credit card transactions available in those locations. Once the money is spent, the employees submit receipts to the United States office and the corresponding expenses are recorded on the books.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2017 and 2016

NOTE D – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 16,836	\$ 16,836
Furniture and fixtures	6,567	6,567
Equipment	198,352	210,106
Computer equipment	20,016	-
Vehicles	<u>33,340</u>	<u>19,840</u>
	275,111	253,349
Accumulated depreciation	<u>(104,602)</u>	<u>(107,542)</u>
 Total property and equipment, net	 \$ <u>170,509</u>	 \$ <u>145,807</u>

NOTE E – OPERATING LEASES

The Organization leases office space in Cambridge, Massachusetts on a month to month basis.

The Organization also leases office space in Burundi. The Burundi lease expires in June 2017 and was not renewed. Rent payments for Burundi were \$4,690 in year ending September 30, 2017.

Beginning in October 2016, the Organization entered into a two year lease agreement for warehouse space in Tanzania. Future minimum rent payments for the Tanzania lease are \$36,000 in fiscal year ending September 30, 2018.

NOTE F – RECOVERABLE GRANTS

During fiscal year end September 30, 2014, the chairman of the board of directors of the Organization loaned Project Healthy Children, Inc. \$100,000 as a recoverable grant. The grant bore no interest and was due and payable May 15, 2016. The debt was forgiven during fiscal year end September 30, 2016 because the Organization did not meet the financial requirements as set forth in the promissory note. The original loan of \$100,000 was recharacterized during fiscal year end September 30, 2016 and recorded as a contribution. As of September 30, 2017, there is another recoverable grant that will be repaid to an unrelated party during fiscal year ending September 30, 2018.

NOTE G – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at a financial institution located in Massachusetts. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Bank deposit amounts may, at times, exceed federally insured limits. Management does not believe that it is exposed to significant risk with respect to cash.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2017 and 2016

NOTE H – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated events occurring after the balance sheet date of September 30, 2017 through August 15, 2018, which is the date that the financial statements were available to be issued.